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TO RUEHC/SECSTATE WASHDC 7211
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RUEHMN/AMEMBASSY MONTEVIDEO 2383
RUEHBU/AMEMBASSY BUENOS AIRES 2798
RUEHSG/AMEMBASSY SANTIAGO 2089
RUEHLP/AMEMBASSY LA PAZ 3407
RUEHRG/AMCONSUL RECIFE 3672
RUEHRI/AMCONSUL RIO DE JANEIRO 8198
RUEHAC/AMEMBASSY ASUNCION 3054
RUEATRS/DEPT OF TREASURY WASHDC

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SIPDIS

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DEPT FOR WHA/BSC, WHA/EPSC
STATE PASS TO USTR FOR SCRININ
STATE PASS EXIMBANK
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
NSC FOR TOMASULO
USDOC FOR 4332/ITA/MAC/OLAC
USDOC FOR 3134/USFCS/OIO
TREASURY FOR JHOEK
AID/W FOR LAC/AA

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ETRD](#) [BEXP](#) [EWWT](#) [BR](#)

SUBJECT: SANTOS PORT INFRASTRUCTURE INVESTMENT: WHERE IS THE MONEY?

SENSITIVE BUT UNCLASSIFIED; PLEASE PROTECT ACCORDINGLY

SUMMARY

1. (SBU) Summary: Econoff and Econ FSN visited the Port of Santos recently to follow up on several news stories relating major infrastructure investment. Interviews with municipal and GoB Port Authority (CODESP) officials revealed that there are several privately-funded projects under way, and planned projects to be funded by the Lula administration's Growth Acceleration Program (PAC), but that most major investment initiatives are still in the planning stage and have yet received funding or begun to be implemented. End Summary.

PORT OF SANTOS: THE CURRENT STATUS

2. (SBU) The Port of Santos is located 60 kilometers southwest of Sao Paulo across the Serra do Mar mountain range. Santos serves the industrial and agricultural trade needs of the state of Sao Paulo and neighboring states of Minas Gerais, Mato Grosso do Sul, and Parana, as well as states further inland like Mato Grosso, Goias, and Rondonia. It is the largest port by volume in South America, annually moving more than 25 percent of the value of goods traded by Brazil on international markets. The Port of Santos was responsible for 29 percent of total Brazilian export shipments in 2006. Similarly, 28 percent of imports entered through Santos. Santos also serves as a major port for transit of products to Paraguay, Bolivia and Chile. According to Fabio Ferraro Oliari, Special Assistant to the President of CODESP, the federally-operated Sao Paulo State Docks Company will see approximately 82 million tons of cargo transiting through the port in 10,500 vessels in 2007. The port area has 7.7 million square meters of space (480,000 in warehousing) along 13 kilometers of wharves, and can berth up to 64 ships at a time in 55 CODESP and 9 private terminals.

13. (SBU) Santos has been plagued with three major problems hindering its expansion and capability to handle more activity: 1) limited capacity to access the port via the road, rail, and barge systems; 2) its shallow ship channel prevents larger ships from entering some berths; and 3) insufficient number of berths. With the introduction of the Growth Acceleration Program (PAC) and the creation of a new Ministry of Ports, there is expected to be greater focus on and more attention to port infrastructure development with the necessary allocation of funds. The PAC is expected to provide investments of USD 1.4 billion for development of 12 Brazilian ports by 2010, and a portion of this could realistically address some of Santos' needs.

A VIEW FROM THE MAYOR'S OFFICE

14. (SBU) In a conversation with Maria Luiza Justo Nascimento, International Relations Advisor in the office of Mayor Joao Tavares Papa, Econoff learned that the federal, state, and city projects planned for the expansion and improvement of the port are still in the planning phase, and to this date have not received any specific funds. The expansion of the downtown port marina complex is still very much on the agenda, and the city is waiting for funds to be approved. The major holdup is that the land and the eight former port warehouses, currently abandoned, are owned by the Federal Government, which must deed this property to the city before any substantial movement in the project can occur. The city envisions this complex to incorporate a new marina for tourists arriving via ships, restaurants, commercial port establishments, a port research and training center (based on a similar school in Antwerp), and commercial businesses. The influx of jobs and tourism could be a major boom for the city.

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15. (SBU) On the private sector side, Nascimento indicated that Petrobras is expanding its operations in Santos to develop the extensive natural gas reserves recently discovered in the Santos basin. In a subsequent discussion, Fabio Oliari of CODESP stated that Petrobras will develop platforms capable of tripling the amount of gas currently extracted in Brazil and transforming Santos into one of the country's most important natural gas extraction centers. The most recent major private investment in the city, which will positively affect the port area and the economy of the city, is the announcement by Switzerland-based Mediterranean Shipping do Brasil Ltda (MSC) of plans to build a new office complex in Santos. According to Nascimento, MSC is currently the second largest container transport company in the world and already employs 250 people in Brazil. A 50-percent increase in the company's work force is expected upon the completion of the new office in approximately 18 months.

CODESP: PLANNED INFRASTRUCTURE PROJECTS

16. (SBU) Fabio Farraro Oliari, Special Assistant to the President of CODESP, agreed with Nascimento. Up to now, there has been no allocation of funds from the PAC to the port of Santos, and all projects are still in the planning stage. Projects that are moving forward are those being developed by private companies. Oliari explained that a change in the President and Board of Administrators of CODESP has put all government-sponsored projects on hold. He characterized it as a political move related to the Lula administration's recent creation of a new Ministry of Ports. Oliari expects some progress on the allocation of funds for the port development projects as soon as the new members of the board are announced. On the positive front, he stated that Santos presently accounts for 40 percent of container traffic, occupying now 39th place in world rankings, up from 61st place in 2001. The port of Santos is now Brazil's most important port for soy shipments, surpassing the port of Paranagua.

17. (SBU) Oliari highlighted five major investment projects currently underway or in the planning phase: 1) deepening of the canal to approximately 17 meters of depth, expected to begin in 2008-09 after the environmental license is approved; 2) the

Barnabe-Bagres project (approximately USD 680 million), which will double the capacity of the port of Santos, presently undergoing an environmental study, with construction projected to begin in 6-7 years; 3) relocation of inhabitants of two slum areas located on future port terminal areas, approved for PAC funding; 4) Embraport Terminal, a private investment project for a large multi-modal port terminal complex, already licensed, currently under construction and to be completed this year; and 5) the Dry Bulk Terminal Project, which will use land ceded by the federal government to the private sector and will be jointly funded by the municipal government, CODESP, and private investors (USD 200 million); this project will provide containers for soy meal, fertilizer, and alcohol, to name a few products.

CHANGING PORT PROCEDURES TO ENCOURAGE INVESTMENT

18. (SBU) In an effort to improve the success of the current dredging project at Santos and encourage private investment, the new Minister of Ports, Pedro Brito, has announced a change in procedures for the dredging project. (Santos has an ongoing dredging operation which maintains the waterways open for port traffic.) Rather than keeping the current contract, which basically grants three companies exclusive rights to operate the dredging project, Brito has proposed that the concession be opened internationally to bidders, and contracts be given for a period of five years, renewable depending on the quality of the work delivered. With this move, Brito expects to take the project out of the hands of the three Brazilian companies currently dredging, Bandeirantes, Dragaport and Enterpa. According to "Folha de Sao Paulo", Brito reportedly said that these

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three companies represented "an oligarchy that does not permit competitive prices, nor efficiency, nor modern equipment" in the process.

COMMENT

19. (SBU) With the federal PAC program, which specifically targets port projects, there was hope that necessary port improvements at Santos would soon be underway. However, the ongoing uncertainty about levels and allocations of PAC funding and the impending changes in CODESP's leadership make it difficult to predict when those projects will be implemented. These difficulties are unfortunately typical of the problems surrounding many of the GoB's efforts to invest in necessary infrastructure. In an attempt to bypass the federal bureaucratic morass, Sao Paulo Governor Jose Serra recently proposed that the GoB transfer the port's administrative functions to the state government in order to harmonize port projects with other state-sponsored infrastructure development in the area, but the GoB declined. End Comment.

110. (U) This cable was coordinated with Embassy Brasilia.

HELLING